

Message Text

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43

ACTION EUR-12

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FM AMEMBASSY BUDAPEST

TO DEPT OF COMMERCE WASHDC PRIORITY

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FOR DAS DOWNEY FROM AMBASSADOR

E.O. 11652: N/A

TAGS: ESTC, ETRD, HU

SUBJ: EXPORT CONTROL: IBM

1. SUMMARY: WE HAVE ANOTHER ONE -- THIS TIME AN IBM
CONTRACT FOR ABOUT \$500,000 IN PERIPHERAL EQUIPMENT.
ACCORDING IBM, IF DEAL NOT APPROVED BY OCT 18, MINIMUM
OF \$3.5 MILLION IN JEOPARDY.
END SUMMARY

2. IBM VIENNA REPRESENTATIVES, ACCOMPANIED BY NEWLY-
ASSIGNED WASHINGTON VICE PRESIDENT FOR GOVERNMENT OPERA-
TIONS EDWARD LAW, INFORMED AMBASSADOR AND ECONOFF
SEPT 18 OF SERIOUS PROBLEM IBM FACING IN HUNGARY CON-
CERNING DELAY IN RECEIVING EXPORT CONTROL APPROVAL
FOR ANCILLIARY EQUIPMENT FOR IBM 370/155 NOW IN OPERA-
TION AT GOH CENTRAL STATISTICAL OFFICE.

3. ACCORDING IBM, TO MAKE SYSTEM FULLY OPERATIONAL
HUNGARIANS CONTRACTED FOR HARDWARE TO DOUBLE CAPACITY
OF SOME EQUIPMENT. SALES AGREEMENT WITH STATISTICAL
OFFICE CONTAINS WORLD-WIDE STANDARD IBM CLAUSE CON-
CERNING VALIDITY OF PRICES. WHEN CLAUSE EXPIRES OCT 18,
IBM MUST REPEAT MUST RAISE PRICES TO CURRENT LEVELS. NOT TO DO SO
SUBJECTS FIRM TO LEGAL PROBLEMS. IN ADDITION, IBM
DOES NOT WISH TO CREATE PRECEDENT OF EXTENDING PRICE VALIDITY,
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PARTICULARLY SINCE COMPANY JUST FACED SAME PROBLEM IN

SOVIET UNION AND RISKED LARGE SALE THERE BY INSISTING
SOVIETS FOLLOW PRICE VALIDITY DEADLINES. AMOUNT
INVOLVED IN THIS CASE IN HUNGARY IS SOMEWHAT MORE THAN
\$500,000.

4. ACCORDING TO IBM, HUNGARIANS POINT OUT THAT THE DELAY IS
COMPLETELY OUTSIDE THEIR CONTROL AND THAT STATISTICAL OFFICE
WILL NOT BE ABLE TO OBTAIN AUTHORIZATION FOR PRICES
HIGHER THAN THOSE PREVIOUSLY AGREED UPON. IBM REPRESENTATIVES
NOTE THAT IN PAST HUNGARY, WHEN FACED WITH SIMILAR
PROBLEMS, CARRIED OUT EARLIER THREAT AND SHUT DOWN
IBM'S SALES OPERATIONS FOR TWO YEARS.

5. ACCORDING TO IBM, USG AND COCOM APPROVAL NECESSARY
BEFORE OCT 18, TO SALVAGE THIS \$500,000 SALE
AND ALSO TO SAVE \$3.5 MILLION OTHER BUSINESS WHICH
DEPENDS ON SOLUTION TO THIS PROBLEM. EXPORT LICENSE APPLIED
FOR IN MAY 1975.

6. AMBASSADOR WELCOMED IBM OFFICIALS AND NOTED THEY WERE
FIRST REPS THAT COMPANY TO VISIT CHANCERY SINCE HE ARRIVED
LAST APRIL. HE SAID IT WOULD HAVE BEEN USEFUL TO HAVE KNOWN
ABOUT THIS ISSUE PRIOR TO DEPUTY ASSISTANT SECRETARY DOWNEY'S
SEPTEMBER 4-5 BUDAPEST VISIT AND EXPRESSED SURPRISE THAT
HUNGARIANS, WHO ARE NOT BASHFUL IN SUCH MATTERS, HAD MADE NO
MENTION OF ISSUE TO HIM OR TO OTHER EMBOFFS. IBM SOMEWHAT LAMELY
EXPLAINED DELAY BY STATING THAT FIRM HAD THOUGHT PROBLEM
WOULD BE SOLVED AFFIRMATIVELY ON TIME.

7. IBM ALSO RAISED PROBLEM CONCERNING TAPES FROM STATISTICAL
OFFICE WHICH EMBASSY SENDS TO WASHINGTON. THE USG IS SUPPOSED
TO RETURN THESE TAPES TO IBM FOR REUSE; SO FAR IT HAS NOT
RETURNED ANY, AND CONSTANT SUPPLY OF NEW TAPES BECOMING
EXPENSIVE FOR COMPANY.

8. COMMENT: WE HAVE HEARD IBM SIDE OF CASE BELATEDLY. WE
DO NOT KNOW THE FACTS NOR DO WE KNOW THE COMPLICATIONS WHICH
HAVE CAUSED THE DELAY. WE ASSUME THAT DAS DOWNEY AND BEWT
HAVE MATTERS IN HAND ON WASHINGTON END. WE CAN ONLY SAY THAT
IBM HAS DONE WELL IN HUNGARY THROUGH THE YEARS; THAT HUNGARIAN
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STATISTICAL OFFICE, A UNIT HE ONCE HEADED, IS PERSONAL PET OF
DEPUTY PRIME MINISTER HUSZAR; THAT, IF IBM LOSES THIS ORDER
AND THEN AS A CONSEQUENCE FACES GOH CRACKDOWN ON FUTURE ORDERS,
LEGITIMATE U.S. COMMERCIAL INTERESTS WILL SUFFER; AND SIEMENS
WILL, I SUSPECT, CHALK UP SALES AT AMERICAN EXPENSE. ON THE
OTHER HAND, HUNGARIAN THREAT -- AS REPORTED BY IBM REPS --
TO DENY COMPANY SALES ACCESS TO THIS MARKET BEARS MORE
THAN A SLIGHT RESEMBLANCE TO BLACKMAIL.

9. ACTION REQUESTED: PLEASE ADVISE PRESENT STATUS OF
IBM CASE AND INDICATE WHETHER WASHINGTON AGENCIES
BELIEVE EMBASSY CAN AT THIS STAGE PLAY A USEFUL ROLE
HERE WITH GOH.
MCAULIFFE

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